SENATE COMMITTEE ON HOUSING
Senator Scott Wiener, Chair
2021 - 2022 Regular

Bill No:	AB 1423	**Hearing Date:**	7/8/2021
Author:	Daly		
Version:	6/30/21 Amended		
Urgency:	No	**Fiscal:**	Yes
Consultant:	Alison Hughes		

SUBJECT: Housing programs: multifamily housing programs: expenditure of loan proceeds

DIGEST: This bill allows a borrower to request funding from the Department of Housing and Community Development (HCD) as a construction loan, the traditional permanent financing option.

ANALYSIS:

Existing law:

1) Establishes the Multifamily Housing Program (MHP) at HCD to assist the new construction, rehabilitation, and preservation of permanent and transitional rental housing for lower-income households through loans to local government, non-profit developers, and for-profit developers.

2) Establishes the Joe Serna, Jr. Farmworker Housing Grant Program (Serna Program) at HCD to finance the new construction, rehabilitation, and acquisition of owner-occupied and rental units for agricultural workers, with a priority for lower-income households.

3) Establishes the Veterans Housing and Homelessness Prevention Program (VHHP), administered by HCD in collaboration with the state Department of Veterans Affairs (CDVA) and the California Housing Finance Agency (CalHFA). VHHP focuses on housing for veterans who are homeless, or at risk of homelessness, and are in need of service such as mental health counseling, substance abuse treatment, job training, and physical therapy to address injuries.

4) Establishes the CalHome Program at HCD to provide grants to local public agencies and non-profit developers to assist individuals and households through deferred-payment loans. The funds provide direct, forgivable loans to assist

development projects involving multiple ownership units, including single-family subdivisions.

This bill:

1) Provides that any funds approved, reserved, or allocated by HCD for the purpose of providing a loan under MHP may, at the option of the borrower, be used for any of the following:

   a) Construction financing;

   b) Permanent financing; and

   c) A portion for construction financing, with the balance for permanent financing.

2) Provides that if a borrower requests a construction loan, all of the following shall apply:

   a) HCD shall deposit the loan funds with the first lender at or before the closing of the first lender's construction loan;

   b) Pursuant to guidelines to be adopted by HCD after consultation with stakeholders, the first lender shall disburse the HCD funds to the borrower during the construction period until the HCD funds are fully disbursed; and

   c) The first lender shall disburse the balance of the first lender's construction loan once all of HCDs funds are fully disbursed.

COMMENTS:

1) *Author's Statement.* "By reducing the cost of development, California can produce more affordable homes to help address the housing needs of low-income families. By funding HCD's loans during the construction period, AB 1423 allows developers to obtain smaller private construction loans and save hundreds of thousands of dollars in construction interest expense per development. The bill further ensures that HCD will see no additional workload by maintaining the private construction lender's current role of construction monitor and approver of draws."

2) *Affordable Housing Financing*. In recent years, the state has created several programs to finance affordable housing, in addition to its flagship program, MHP. In order to make these projects pencil, most housing developers also apply for 4% or 9% federal low-income housing tax credits administered by the

Treasurer's office through the Tax Credit Allocation Committee (TCAC). In addition, credits must be coupled with tax-exempt bonds, also administered by the Treasurer's office through the California Debt Limit Allocation Committee (CDLAC). As a result, developers must navigate a web of overlapping eligibility criteria and application deadlines, which often results in project delays as developers work to line up various funding sources.

According to a March 2020 report by the Terner Center for Housing Innovation at UC Berkeley, most (89%) of projects built with 9% tax credits between 2008-2019 relied on four or more sources of funding, with 80% of projects combining four to eight funding sources. On average, each additional source of funding is associated with an increased cost of $6,400 per unit. The added costs of having to apply to multiple programs in multiple funding rounds include preparation of additional applications, review, and coordination of additional loan documents, and property holding costs due to time delays between application cycles.

The state has been working in recent years to align its housing programs. MHP either prioritizes 4% tax credits or requires them, depending on the type of project. TCAC, CDLAC, and the California Housing Finance Agency (CalHFA) have implemented a joint application for the Mixed Income Program, which helps finance construction of new affordable multifamily housing projects (funded by SB 2, Atkins, 2017). Budget trailer bill legislation last year (AB 83) directed HCD, TCAC, and CDLAC to "develop a coordinated system to manage available state funding and private activity bonds to deliver the maximum number of units as efficiently as possible to very low and extremely low income households."

Additionally, last year, AB 434 (Daly, Chapter 192, Statutes of 2020) required HCD to streamline multiple funding programs by aligning six rental housing programs with the MHP to implement a single application and scoring system for making coordinated awards under all seven programs.

3) *HCD funding*. HCD administers multiple programs, both federal and state, that provide loans to developers to rehabilitate, preserve, or construct affordable rental housing; these programs are structured as permanent financing. Developers receive an award of funding based on a proposed project and use that commitment to secure a construction loan to start construction. State law is silent on whether HCD makes its loan funds available during the construction phase of a project or only during conversion to permanent financing. As a matter of practice, HCD has chosen the latter. This decision requires affordable

housing developers to obtain larger construction loans and pay hundreds of thousands of dollars in additional interest expense per development.

This bill significantly reduces construction period interest expenses by allowing developers to receive HCD loan funds during the construction period. Developers would still need to obtain a private construction loan, albeit significantly smaller, and the private construction lender would continue to monitor construction progress and approve allocations. HCD will establish guidelines to determine how much funding to provide at a time during the construction period, in order to ensure that the State can rely on the private construction lender's due diligence.

The California Housing Partnership, the sponsor of this bill, has calculated that this bill will result in the construction of an additional 500 affordable homes over the next ten years within existing funding. The impact will be even greater at higher levels of state investment and could lead to hundreds of millions of dollars in additional resources, since each unit of housing currently requires considerable subsidy. Under this bill, developers would have discretion to request either a construction loan, permanent financing, or a combination of both. Lastly, this bill would further HCD's efforts to modernize and improve the impact of the state's investment in affordable housing.

RELATED LEGISLATION:

AB 434 (Daly, Chapter 192, Statutes of 2020) — aligned six rental housing programs within MHP to enable HCD to implement a single application and scoring system for making coordinated awards under all seven programs, starting on January 1, 2022.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

POSITIONS: (Communicated to the committee before noon on Thursday, July 1, 2021.)

SUPPORT:

Bridge Housing (Co-Sponsor)
California Housing Partnership (Co-Sponsor)
California Apartment Association
California Housing Consortium
Corporation for Supportive Housing
Eden Housing

MidPen Housing Corporation
Non-profit Housing Association of Northern California

OPPOSITION:

None received.

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